

10 March 1959

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TO: [REDACTED] Asst. to DD/I (NSC)

FROM: Chief, Industrial Division, ORR

SUBJECT: Evaluation of Statement on Comparison of the GNPs and Defense Expenditures of the US and USSR.

REFERENCE: NSC Staff Document (3-6-59), Subject: Relative Size of Defense Expenditures by NATO Countries.

1. Paragraph 7 of the reference states: Incidentally, NII 11-4-58 estimates that the USSR has a GNP about 40% that of the U.S., and that USSR defense expenditures are almost exactly equivalent to those of the U.S. From this it can be deduced that the USSR has a per capita GNP of about one-third that of the U.S., and devotes about 25% of its GNP to defense. (SECRET)

2. Each of the deductions in the above statement will be evaluated separately. First, "From this it can be deduced that the USSR has a per capita GNP of about one-third that of the US . . ." Our estimates for the USSR in 1957 (1957 dollar basis) are as follows:

- (a) Soviet GNP was about 40% (41%) of US.
- (b) Soviet population was about 120% (119%) of US.

Thus, in 1957 the Soviet GNP per capita was about one-third (34%) of the US.

3. Second, ". . . USSR . . . devotes about 25% of its GNP to defense." This deduction raises the problem of measuring Soviet GNP and defense in rubles (market or factor cost prices) or dollars (US prices or official exchange rates). The ICA data<sup>\*</sup> presented in the first paragraph of the

\* The ICA Regional Data Book-Europe contains the following footnote on page B-1: "Precise comparisons of the levels of gross national product between the European countries and the United States are not possible. The conversion into dollars has been made on the basis of official foreign exchange rates, and the purchasing power of the dollar is appreciably higher in most European countries than in the United States. Intra-European comparisons of the converted dollar figures are subject to similar limitations. Adjustments to make the figures truly comparable cannot be made."

reference are based on dollars converted at official exchange rates; percentage derived on this basis is equivalent to using native currencies. Comparable data for the USSR for 1958 can be derived from the following:

	Billion Rubles (1955 market prices)	Billion Dollars (4 rubles to 1 dollar)
GMP	1,620	405
Defense	158	39

This would result in a figure of about 10%. A figure of about 11% to 12% would result from the use of factor costs instead of market prices.

4. If, however, 1957 US dollar values are used, the Soviet data for 1958 would be as follows:


	Billion
GMP	\$190
Defense	\$ 41

This would result in a figure of about 20%.

5. Even though the data derived in paragraph 3 above appears to be based on the official ruble/dollar rate of exchange, the percentages derived therefrom are consistent methodologically with those listed in third column of the table in the reference.

6. A discussion of the penciled notes accompanying the reference is attached.

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Attachment

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